

DEVELOPMENTS IN THE FOURTH QUARTER OF 2007

INTERNATIONAL ECONOMIC ENVIRONMENT

Moderation in economic growth in some major industrial economies while Asian economies maintained their growth momentum

Global growth performance in the fourth quarter of 2007 was mixed, with most industrial economies experiencing a moderation in economic activities while Asian regional economies maintained their growth momentum.

In the **United States (US)**, fourth quarter advance estimates showed that growth weakened to 0.6% (3Q: 4.9%) following further declines in housing investment and lower contribution of net exports to GDP. Growth was, however, still supported by a modest expansion of 2% (3Q: 2.8%) in consumer spending.

Meanwhile in **Japan**, GDP grew at a stronger pace in the fourth quarter at 3.7% (3Q: 1.3%), supported by private consumption, investment and exports. Positive growth was recorded in retail sales and household spending. Exports were sustained due mainly to demand from non-US economies. Investment activity rebounded on stronger capital spending. On the inflation front, prices rose during the quarter for the first time in the year, reversing three quarters of declines, attributed to price increases in energy-related products.

Economic activity in the **euro area** moderated in the fourth quarter to 2.3% (3Q: 2.7%) but remained above its potential level. Fourth quarter growth was limited by weaker growth in Germany, France and Italy. Germany registered a sharp slowdown in the fourth quarter (4Q: 1.8%; 3Q: 2.4%) as gains from investment and net exports were offset by falling consumption activity. Growth in France was also constrained by a reduction in exports and weaker consumer spending.

Meanwhile in the **UK**, growth softened to 2.9% due to slower expansion in the business services and finance sector. Industrial output was also weaker, with a flat growth in the manufacturing sector.

Industrial countries: Real GDP Growth

	2006		2007			Key contributing factors for 4Q growth
	4Q	Year	3Q	4Q	Year	
	Annual change (%)					
US ¹	2.1	2.9	4.9	0.6 ^a	2.2 ^a	Moderate expansion in consumer spending while residential investments declined further.
UK	3.3	2.9	3.3	2.9	3.1	Slower expansion in the business services and financial sector.
Euro zone	3.2	2.9	2.7	2.3 ^p	2.7 ^p	Slower growth in Germany, France and Italy. Significant drop in consumer spending in Germany and France.
Japan ¹	4.2 ^r	2.4	1.3 ^r	3.7 ^p	2.1	Supported by domestic demand, mainly due to growth in investment activity, and healthy export performance.

¹ Annualised basis
^a Advanced estimate
^r Revised
^p Preliminary

Source: National authorities

In the **US**, the **Federal Open Market Committee (FOMC)** cut interest rates in response to concerns of a sharper US slowdown. In the fourth quarter of 2007, the FOMC cut interest rates by a total of 50 basis points. At the beginning of 2008, the FOMC reduced interest rates by another 125 basis points, including an inter-meeting rate cut of 75 basis points that was the largest unscheduled cut on record. The monetary policy stance was biased towards reducing the heightened risks of a sharp economic slowdown due to the tightening credit conditions for households and businesses as well as the stresses in the financial system and markets.

Meanwhile, in other industrial countries, inflationary pressures remained a concern despite growing risks to growth. The **European Central Bank** maintained policy rates during the fourth quarter of 2007. However, amidst growing pressures from a slowing economy and a weakening financial sector, the **Bank of England** cut interest rates by 25 basis points in the fourth quarter of 2007 and again by 25 basis points at its February 2008 meeting. Meanwhile, the **Bank of Japan** maintained interest rates at 0.5% despite the gradual rise in consumer prices as weaker external demand conditions raised the risks to economic growth.

Global **crude oil prices** rose to new highs in the fourth quarter of 2007 amidst concerns over supplies during the winter season and the weakness in the US dollar. For 2007 as a whole, crude oil prices increased by 9.2% and averaged USD72.32 per barrel (2006

average: USD66.23) and reached a new intraday record high of USD100.09 per barrel on 3 January 2008.

Economic activity in the **Asian region** remained robust in the fourth quarter, led by People's Republic of China (PR China) with robust growth of 11.2%. The growth momentum in the region was supported mainly by rising domestic demand amidst weaker external demand conditions arising from a slowing US economy. While inflation remained a concern for most regional economies, most regional central banks kept policy rates on hold while a few eased rates to address country-specific issues.

In the **foreign exchange market**, the US dollar ended the quarter weaker against most major currencies. Dollar performance was mainly affected by prospects of a sharper US slowdown and expectations for further

interest rate cuts by the Fed. The US dollar continued to reach multi-year lows against the Japanese yen due to the unwinding of yen carry trades. Regional currencies also appreciated in the quarter against the US dollar due to continued strong trade and portfolio inflows.

Going forward, global growth is expected to moderate, reflecting a slowdown in the major industrial economies and continued uncertainties in global financial markets. Notwithstanding the less favourable global economic conditions, regional growth remains supported by the continued strength in domestic demand while high commodity prices will continue to provide added impetus to commodity producing countries in the region.

Regional Countries: Real GDP Growth

	2006		2007			Key contributing factors for 4Q growth
	4Q	Year	3Q	4Q	Year	
	Annual change (%)					
P.R. China	10.4	11.1	11.5	11.2	11.4	Growth remains supported by robust domestic demand amidst some moderation in external demand.
Singapore	6.6	8.2	8.9	5.4	7.7	Positive performance in the construction and services sector continued to sustain growth.
Philippines	5.5	5.4	7.4	7.4	7.3	Driven by strong consumer spending.
Indonesia	6.1	5.5	6.5	6.2	6.3	Due to strong domestic demand and commodity exports.
Chinese Taipei	4.0	4.9	6.9	6.4	5.7	Growth was supported by robust performance in exports.
Korea	4.0	5.0	5.2	5.5	4.9	Growth was supported by robust performance in the manufacturing sector.
Thailand	4.2	5.1	4.9	5.7	4.8	Growth was supported by robust performance in exports and domestic demand.

Source: National authorities